

Impact of New Labour Codes on Employers & Employees

Introduction

India is in the middle of a significant transformation of its labour laws with the introduction of four new labour codes. This landmark overhaul is set to redefine the relationship between employers and employees by streamlining compliance and aiming to provide better wages, enhanced social security and an improved working environment. The key questions for both businesses and the workforce are clear:

What do these new regulations practically mean for daily operations?

How will they influence hiring practices, termination procedures and overall compensation structures?

For many years, India's existing labour legislation has been criticized for being complex, archaic, and difficult to navigate. This created significant compliance challenges for businesses while often failing to provide sufficient protection for workers. In response, the government has consolidated 29 separate central labour laws into four comprehensive codes. The primary objective of this consolidation is to harmonize and simplify regulations across all sectors, promoting uniformity in wage calculations, employee benefits, industrial relations and social security.

This will delve into the specific ways, the new labour laws will affect both employers and employees. We will examine crucial aspects such as wage revisions, changes to hiring and firing policies, new compliance requirements and modifications to employee benefits. Furthermore, we will explore the potential challenges and offer practical strategies to help businesses, HR professionals and employees prepare for this major transition.

Overview of New Labour Codes

Four new labour codes were formulated to make changes to the existing labour laws. These include:

1. Code on Wages, 2019

- Standardizes a definition of wages across the board that will resonate across salary structures.
- Guarantees minimum wages for employees across sectors.
- Requires timely wage payments and removes regional disparities.

2. Industrial Relations Code, 2020

- Widened definition of 'worker' to include working journalists and employees of sales promotion.
- New retrenchment rules would allow companies with up to 300 workers to dismiss staff without government approval in advance.

- Provides for fixed-term employment with benefits comparable to permanent workers
- Bolsters dispute resolution and supports collective bargaining.

3. Occupational Safety, Health and Working Conditions Code, 2020

- Expanded applicability to cover establishments employing 10 or more workers, including factories, mines, construction and service sectors.
- Fixes the maximum daily working hours at eight hours, with overtime at double the wage rate.
- Mandate guidelines for improved workplace standards.
- Streamlines the registration process for establishments through a common portal.
- Mandates free annual health check-ups for certain categories of workers, especially in hazardous industries.

4. Code on Social Security, 2020

- Aims to extend social security benefits to all workers, including unorganized, gig and platform workers.
- Broadens the definition of 'employee' to include workers across various sectors, reducing ambiguity.
- Enable the appropriate government to frame schemes regarding social security benefits for gig and platform workers.
- Mandates the employer's contributions for unorganized workers.

Henceforward, it is clear that the labour codes will have a certain impact on both the employers as well as employees and will impact future business policies and workforce management.

Impact on Employers

1. Changes in Compliance & Regulation

- **Easier compliance:**

The codes will consolidate multiple labour laws into four simple codes, thus ensuring easier compliance for employers.

- **Digital record keeping:**

Employers will have to maintain a digital compliance record for greater transparency.

- **Stricter consequences for non-compliance:**

The code mandates stricter penalties for violations, thus incentivizing compliance.

- **Mandatory grievance redressal mechanism:**

Companies that employ more than 20 migrant workers will be required to set up an internal grievance system.

2. Cost, Wage Structure & Implications

- **Impact on Salary Structure:**

The definition of 'wages' has been revised under the Code on Wages, 2019. Now, the employers must ensure that a minimum of 50% of the total compensation goes towards basic wages.

- **Cost Increase due to PF and Gratuity:**

The Wages code provides for a higher contribution towards the employee provident fund and gratuity, which might lead to increased costs for businesses.

- **Reduced take-home salary but enhanced social security benefits:**

Considering greater deductions, employees may experience a reduction in net salary but an increase in other social security benefits.

- **Minimum wage standardization:**

High wages would need to be paid by the businesses in the low-wage region if the wage rules of the wages are fixed to be similar in every working area.

3. Labour Relations, Hiring & Firing

- **Fixed-term employment:**

The code on Industrial Relations provides for the flexible option to hire employees for a limited duration while providing them with similar benefits to permanent employees.

- **Easier retrenchment process:**

Companies with up to 300 employees can retrench their employees without government approval.

- **New policies push for gig and platform work:**

The gig and platform workers are encouraged by the medium of various policies, which will provide them with social security benefits, among others.

- **More power in the hands of trade unions:**

Industrial Relations Code has promoted the accumulation of bargaining power through collective negotiations.

Impact on Employees

1. Changes in Salary Structure

- **Basic salary 50% of total pay:**

A higher basic pay component (50% of total pay) will lead to increased mandatory deductions like Provident Fund, reducing the immediate in-hand salary.

- **Enhanced retirement savings:**

The Increased provident fund contributions due to a higher basic pay will ensure a larger corpus for post-retirement financial security.

- **Statutory bonus eligibility:**

An employee would be eligible for a statutory bonus if they work for at least 30 days in an accounting year and their wages do not exceed a specific monthly amount, which will be determined by the appropriate government.

2. Improved Social Security Benefits

- **Extended coverage:**

Social security benefits provided under the Social Security Code aim to cover all workers, including those in the unorganized sector, gig workers and platform workers.

- **Gratuity for fixed-term employees:**

Fixed-term workers would be eligible for gratuity benefits, even with a shorter service period than the previously required mandate of five years.

- **Enhanced maternity benefits:**

The SS Code will incorporate and strengthen the provisions of the current Maternity Benefit Act, 1961 and will ensure paid leave and other support for women workers.

- **Portability of benefits:**

Mechanisms such as Aadhaar-based Universal Account Numbers (UAN) will aim to ensure seamless portability of social security benefits across different employers and states.

3. Safer & Better Working Conditions

- **Guaranteed safe workplace:**

Employers will be legally obligated under the OSH Code to provide a working environment free from hazards that could result in a possible injury or occupational disease.

- **Improved welfare facilities:**

The OSH code will mandate access to employees for better provisions of drinking water, sanitation, canteens and crèches as per specified standards.

- **Defined working hours:**

The code provides for a maximum of an 8-hour workday and regulated intervals to ensure protection against excessive working hours.

Challenges & Concerns

- **SME's will find complying more costly:**

Small and Medium-sized Enterprises (SMEs) will most likely find complying with the provisions of the labour codes more costly due to increased statutory contributions, new salary restructuring, and the need for updated compliance systems.

- **Delayed implementation:**

There is a clear lack of clarity in enforcement timelines. More than five years have passed since these codes were drafted, but their non-implementation has created confusion among both employers and employees regarding when and how to comply with the new labour codes.

- **Job Security Concerns:**

The increased threshold for layoffs/retrenchment without government approval in larger establishments will raise concerns about job losses.

- **Cost penalty to companies:**

Employers will have to change their remuneration strategies, finding the right balance between fulfilling the law and making a profit.

- **Varying State-Level Rules:**

Since labour is a concurrent subject, with both the central & state governments having power to legislate on the subject, there might be different rules across the states, which could create inconsistencies and complexity for businesses operating nationally.

How can Employers & Employees get Ready for Implementation of Codes

For Employers:

- It is suggested that employers should audit their policies and payroll in order to seek compliance with the codes.
- Employers should analyse the existing salary structures and make necessary adjustments to ensure the compliance of the basic wage component and should inform their employees about new salary structures and benefits.
- It is highly suggested that employers should formalize their employment contracts, ensuring that all employees receive formal appointment letters outlining their terms and conditions of employment.
- Employers are recommended to strengthen their workplace safety measures. They will have to review and enhance their occupational safety and health protocols, including providing annual health check-ups and forming safety committees.
- The Employer will have to prepare for the social security expansion within their establishments by understanding the obligations for extending social security benefits to gig workers, platform workers and unorganized labour.
- The employers are advised to monitor state-level rules by staying updated on the notification of final rules by individual states, as such state rules will dictate the actual implementation timeline and specific requirements.

For Employees:

- Employees are suggested to understand the new wage Structure by familiarising themselves with how the new 'wage' definition might impact their in-hand salary, PF and gratuity calculations.
- Employees are encouraged to learn about the social security benefits. They will have to understand the expanded coverage under the Social Security Code, especially for unorganized, gig and platform workers.
- Employees should know their rights regarding working hours and overtime. They should be aware of the new provisions on daily/weekly working hours and the double-wage rate for overtime for their benefit.
- Employees should also be aware of the safety and health provisions of their establishments. They must understand their rights regarding a safe working environment, health check-ups and safety committees.
- Employees are advised to track their contribution to the Provident Fund, ESIC and other social security contributions to ensure they are being made correctly.

Impact on Specific Sectors

The effect of new labour codes will vary across industries, depending on whether an industry has a major share of contract workers, gig economy employees, or has compliance-heavy operations.

IT & BPM Sector

- The fields of IT as well as BPM are dependent on flexible work models that include remote work, freelancing, as well as contractual employment.
- The new codes, for the first time, have defined and encouraged the gig and platform workers and extended social security benefits to them, which forms an important part of the IT & BPM Sectors.
- The fixed-term employment provisions provide a mechanism for companies to hire employees on a contractual basis while offering benefits like those received by permanent workers.
- The rule regarding the 48-hour workweek may affect work schedules and overtime payments, requiring the adjustment of employee working hours for the IT & BPM sectors.
- The increased threshold for layoffs and retrenchment (300+ workers) could offer larger IT/BPM companies more flexibility in workforce adjustments.

Manufacturing & Construction Sector

- Industries like automobile, steel and textiles, which usually employ a large contract workforce, may see costs rising on account of compliance.
- The Occupational Safety, Health and Working Conditions Code provides for more robust workplace safety norms and would require additional investments in infrastructure for the manufacturing and construction sectors, which are often prone to workplace-related accidents.
- Unlike previously, where standing orders applied to establishments with not less than 100 employees under the Industrial Employment (Standing Orders) Act, 1946, this will be increased to 300 employees under the Industrial Relations Code, giving employers more leeway not only in hiring but also in retrenchment.

Retail & E-commerce Sector

- Under the Code on Social Security, the increasing gig economy workforce (such as delivery personnel and warehouse employees) will get social security benefits.
- E-commerce entities like Amazon, Flipkart and Swiggy will be required to rework their wage structures and social security contributions.

Over Comparisons between Previous Labour Laws

The new labour codes will consolidate the 29 separate labour laws into four broad codes, facilitating compliance and rendering the laws more uniform across industries.

Before the New Labour Codes:

- The complex and fragmented laws often lead to burdensome compliance.
- Different laws with disparate definitions of wages would create interpretational ambiguity.
- There were heavy licensing requirements, especially for contract labour.

After the New Labour Codes:

- Instead of 29 different fragmented laws, there will be four simplified labour codes.
- There will be a uniform definition of wages under the Code on Wages.
- There will be lower administrative burden and compliance costs.

Key Differences

Aspect	Old Labour Laws	New Labour Codes
Wages	Different Definitions in Different Acts	Common definition across codes
Standing Orders	Only establishments with 100+ employees were covered by the IESO Act, 1946	Standing order would apply to establishments with 300 Or more employees
Fixed-term Employment	Not well defined	Well defined with comparable benefits as permanent colleagues
Social Security for Gig Workers	No provisions	The gig and platform workers would be eligible under EPF and ESI

Critiques & Controversies

Worker Protests

- Several trade unions have highlighted that the new codes are biased in favour of employers over the workers, particularly on hiring rules and retrenchment.
- Across the country, worker protests have called for an end to such laws, arguing that they undermine job security.
- Stricter conditions and longer notice periods for strikes are being viewed as an attempt to restrict workers' collective bargaining power.

- Many unions have alleged that the codes were framed and passed without adequate consultation with worker representatives and trade unions.
- Workers widely perceive the codes as being primarily designed to promote 'ease of doing business' for employers, at the expense of worker welfare.

Expert Opinions

- Experts generally agree that consolidating 29 complex laws into four codes is a positive step towards simplifying India's fragmented labour regulatory framework, promoting ease of doing business.
- Many experts believe that the codes will encourage formalization of the economy by providing a clear legal framework and extending benefits to more workers, including those previously informal.
- While acknowledging the inclusion of gig and platform workers, experts note that the specific implementation mechanisms and comprehensive benefits for these categories still lack clarity.
- While the new labour codes are viewed as updating India's workforce by some legal experts, others fear the risk of worker exploitation and gaps in implementation.
- A consensus among experts is that the true success and impact of the codes hinge entirely on their effective implementation, including the timely finalization of state-level rules and robust enforcement mechanisms.

Real-Life Case Studies **Corporate Compliance**

- Even big companies like Infosys and the Tata Group have realigned their salary components in anticipation of compliance.
- Many establishments are proactively communicating the potential changes to employees, explaining how take-home pay might reduce, but social security benefits will increase. Some establishments are looking at optimizing allowance structures to remain compliant while managing employee expectations.
- Most SMEs in the country are highly impacted by the increased social security contributions.
- Many companies heavily reliant on gig/platform workers are actively engaging with government consultations to understand the final contribution models and schemes. They are building internal systems to identify and track gig/platform workers and are already budgeting for potential social security contributions (e.g., 1-2% of turnover for aggregators).

Employee Experiences

- Some gig workers have welcomed the new social security benefits, but others are skeptical that the rules will be enforced.
- Manufacturers are also seeking better contracting laws, while contract employees worry about their job security.

New Labour Codes: FAQs & Industry Practice

1. When will the new labour codes be implemented in India?

The new labour codes were passed in 2019-20, but their implementation has been delayed as approvals from states are still pending. While the rules have been finalized by the central government, states too will have to frame their respective versions before the laws can be implemented. The codes have been implemented by late 2025 or early 2026.

2. How do the new labour codes affect IT professionals?

IT professionals are expected to anticipate big changes with the implementation of the new labour codes. Fixed-term employment contracts are introduced under the codes to let companies have more freedom in hiring and firing employees. Also, the 48-hour-a-week work cap might change work schedules and overtime payments. All IT companies to suggested to review their policies accordingly.

Under the Code on Social Security, various social security benefits will also be extended to gig workers who form a big part of the Information Technology sector. Financial security and workplace protections will be provided to those engaged in contract and freelance work in the IT industry.

3. What are the key differences between the old and new labour laws in India?

The new labour codes are a compilation of 29 labour laws into four wide codes, which means that compliance and regulatory complexities have been brought down significantly. Key changes include the introduction of a uniform wage definition that will help standardize salary calculation across sectors.

The criteria for requiring prior government approval before firms can lay off workers have been revised, increasing the threshold from 100 to 300 employees. The new laws, for the first time, provide social security benefits to gig and platform workers in India. Reformation of the contract workers is another pillar, and there will be the same benefits for all short-term contract workers as well.

4. How do new labour codes challenge employers?

There could be multiple ramifications for employers during the transition toward implementing the new labour codes.

While the codes are generally seen as a positive transition, they come with the caveat of potentially increasing costs for businesses, particularly SMEs, as they will have to adapt to paying more in social security and stricter workplace rules.

Companies will also need to reorganize payroll and pay packages to comply with the new conditions that at least 50 percent of the total salary needs to be classified as basic wages. Delays in the enactment of state-level regulations have also led to uncertainty, complicating the ability of companies to plan their compliance strategies effectively.

5. Why are workers protesting against the new labour codes?

Workers and the trade unions have protested in recent times for the reason that the new labour codes advantage employers over worker protections. One major concern is that the codes allow companies to lay off workers more easily since businesses of up to 300 employees can now dispose of workers without first receiving government approval for retrenchment.

Many labour unions have had to argue against such changes, saying such moves could erode job security for any worker, especially those in contractual and gig-based employment.

6. What is in the new labour codes for gig workers?

For the first time in India, the new codes provide that the social security benefits would apply to the gig & platform workers. The codes require such workers to get coverage under schemes like the Provident Fund (PF), Employee State Insurance (ESI), and maternity benefits.

Some of these measures include accident insurance for gig workers and other welfare measures that would provide a more robust financial safety net to such workers, as they would be able to rely on a financial safety cushion. These changes represent a big step forward in terms of their working conditions, but these workers, at the same time, are still skeptical of how these benefits will play out in real life.

7. Will the new wage code lower take-home salary?

Yes, the Code on Wages 2019's new definition of wages requires that at least half of an employee's total salary be computed as "basic wages." This will increase contributions to social security schemes like PF (provident fund) and gratuity, resulting in lower take-home salaries. Although this would lower the net monthly pay for employees, they will enjoy larger employer contributions in these funds, which would yield larger retirement benefits and provide long-term financial security.

8. Benefits of new labour codes for employers?

The new labour codes hold several advantages for employers. The amalgamation of 29 labour laws into four broad codes massively streamlines compliance and cuts down on the bureaucratic overload on businesses.

Moreover, the shift towards digital compliance mechanisms will curtail paperwork and facilitate the enforcement of labour laws. These new modifications are anticipated to ease the process of doing business in the country while making the work environment more organized and cleaner.

Conclusion

The new labour codes represent a major overhaul of the Indian employment landscape, bringing in reforms that affect both the employers and employees. These laws will bring about improved and enhanced social security, working conditions, and a systematic compliance structure. However, they also bring challenges, especially for small & medium businesses concerning managing their cost structures.

Employers will have to implement new policies concerning payroll and compliance, and employees will have to plan their finances based on the revised wage definitions. With India heading towards a more organized labour market, it is imperative that businesses and workers remain aware, ready and equipped for the future ahead.
